

Markets gain increased certainty on key issues

Weekly Market Compass: Investors gain clarity on a COVID-19 vaccine, the presidential election, Brexit negotiations, and more

Nov 16, 2020 | Kristina Hooper, Chief Global Market Strategist

The British philosopher Bertrand Russell once said, "What men want is not knowledge but certainty." I have been thinking a lot about that quote in the last several weeks, and how especially in such uncertain times, certainty may be more helpful than knowledge in allowing us to move forward.

Markets crave certainty as much as humans, and the good news is that we have gained much greater certainty on a number of topics than we had just a few weeks ago:

- 1. COVID-19 vaccine.** There has been meaningful progress toward developing a vaccine that could be distributed next year. Pfizer announced last week that it has developed a vaccine that has produced strong results in trials thus far, indicating it is 90% effective. And today (Nov. 16), Moderna announced that its coronavirus vaccine was 94.5% effective, based on early results from its ongoing study. While we are many steps away from broad distribution, this is truly a game-changing development, and would represent the most important certainty of all. I expect a vaccine to be widely distributed at some point next year, which should begin the return to normalcy that the world has craved since early 2020.
- 2. Presidential politics.** There is a winner in the US presidential election. Perhaps the greatest fear investors had going into November was that there would be a contested election that would plunge the US into chaos. While there have been some lawsuits in specific states regarding the validity of some votes, I believe they are extremely unlikely to change the outcome. This eliminates a huge amount of uncertainty.
- 3. Brexit.** A "crash out" Brexit looks increasingly unlikely. Significant progress has been made in negotiations recently, and further negotiations will likely be helped by pressure from the incoming Biden Administration and the surprise resignation of Dominic Cummings. He was the most vociferous Brexiteer, and his departure enables UK Prime Minister Boris Johnson, who is not an ideologue, to take a less hard-line approach to negotiations. EU ambassadors are slated to meet on Nov. 18, and I am optimistic a deal might be arrived at then.
- 4. Taxes.** The odds of a tax hike in the US next year are very slim. Many companies feared that their tax situation would become less favorable under a Biden administration. After all, on the campaign trail, Joe Biden made no secret of the fact that he wanted to raise taxes in a number of areas - corporate taxes, income taxes on households earning \$400,000 or more, and capital gains tax rates on households earning over \$1 million - in order to fund his ambitious spending plans. However, it seems very unlikely that he will be able to accomplish this goal given that the Senate is most likely to remain Republican and would therefore have the votes to block any tax increase. This is good news for investors, in my view - I believe the second greatest fear investors had going into November (after a contested election) was that there would be a "blue wave" that would result in higher taxes.
- 5. US foreign policy.** I expect US foreign policy, including trade policy, to return to a more traditional approach next year. President-elect Biden has stated his intentions for the US to re-enter the Paris Climate Accord and to

re-join the World Health Organization. Most importantly, I expect dramatic changes in trade policy. Biden is not a proponent of tariffs, and I believe that his approach to trade disputes will be more surgical – focusing on specific trade issues and negotiating with China over them, rather than applying broad tariffs. This should create greater predictability.

Uncertainty still clouds some issues

Now that doesn't mean we've eliminated all uncertainty. One great source of uncertainty is COVID-19 infections, which have risen rapidly in the eurozone, the US and some parts of the emerging markets. The eurozone appears to be flattening the curve in recent days, although it is too early to tell if this is sustainable. And it's uncertain whether the US will be able to get control of this wave of the virus – although it seems likely the situation will get far worse before it gets better – and it's uncertain how government leaders and individuals will react. As Federal Reserve Chair Jay Powell explained last week, "We have got new cases at a record level, we have seen a number of states begin to reimpose limited activity restrictions, and people may lose confidence that it is safe to go out."¹ However, this should be cushioned by the knowledge that there is a light at the end of the tunnel – the vaccine.

Another source of uncertainty is US fiscal stimulus. While President Donald Trump called for a big fiscal stimulus package this weekend, it is unlikely we will get a significant one before the end of the year, especially since the White House has largely withdrawn from negotiations, and Treasury Secretary Steven Mnuchin was an important force in bringing the last several stimulus packages to fruition. I do believe there is a good chance that President-elect Biden may be able to arrive at a fiscal stimulus package if he can win over several moderate Republicans, but I would only expect it to be about \$1.5 trillion in size (in comparison, the CARES Act passed earlier this year was \$2.2 trillion).

But, all in all, we have a lot more certainty and clarity going forward. So what does greater certainty mean for the economy? It means greater confidence from both businesses and consumers. That in turn can mean higher capex spending by businesses because there is more visibility about the future. It gives hope even as COVID-19 cases rise.

And what does greater certainty mean for markets? It also gives hope even as COVID-19 cases rise. It means stocks could soon start discounting this clearer future. In short, I believe it means quite a bit.

Source

¹Source: Reuters, "U.S. data suggests economic recovery may be weakening," Nov. 12, 2020

Important information

All investing involves risk, including the risk of loss.

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